

Message Text

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ACTION NEA-10

INFO OCT-01 EUR-12 EA-07 ISO-00 CIAE-00 DODE-00 PM-04 H-01
INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15
USIA-06 AID-05 COME-00 EB-07 FRB-03 TRSE-00 XMB-02
OPIC-03 CIEP-01 LAB-04 SIL-01 OMB-01 AGRE-00 /102 W
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R 201710Z DEC 76
FM AMEMBASSY CAIRO
TO SECSTATE WASHDC 9905
INFO AMEMBASSY ABU DHABI
AMEMBASSY BONN
AMEMBASSY JIDDA
AMEMBASSY KUWAIT
AMEMBASSY LONDON
AMEMBASSY TEHRAN
AMEMBASSY TOKYO

C O N F I D E N T I A L SECTION 1 OF 2 CAIRO 17558

E.O. 11652: GDS
TAGS: USEGJC, EINV
SUBJECT: EGYPT'S OPEN DOOR: NEGIGIBLE RESULTS: QUESTIONABLE
PROSPECTS

1. SUMMARY. THE SADAT REGIME REMAINS PUBLICLY COMMITTED
TO THE PRINCIPLE OF THE OPEN DOOR, AND SHOWS HOPEFUL
SIGNS THAT THE ALMOST TOTAL LACK OF RESPONSE OVER THE
LAST TWO YEARS IS FINALLY BEING PERCEIVED IN TERMS OF
WHERE THE FAULT LIES: IN EGYPT. THERE HAVE BEEN A
NUMBER OF HIGH-LEVEL ANNOUNCEMENTS THAT THE APPLICABLE
LAWS AND REGULATIONS, IN PARTICULAR LAW 43, WILL BE
REVISED TO PROVIDE A MORE APPROPRIATE CLIMATE FOR
FOREIGN PRIVATE CAPITAL. THIS WILL NOT BE AN EASY
TASK, ALTHOUGH THE EGYPTIANS MAY APPROACH IT IN THESE
TERMS, SINCE THE OBSTACLES TO A SIGNIFICANT INFLOW ARE
NUMEROUS AND SERIOUS. THIS FACT HAS BEEN EXTENSIVELY
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DOCUMENTED IN THE REPORT PREPARED BY THE U.S.
HALF OF THE EGYPT-U.S. BUSINESS COUNCIL. WHILE
THE OVERALL TONE OF THIS REPORT IS JUSTIFIABLY
NEGATIVE, AND PRODUCED A STRONGLY DEFENSIVE REACTION
ON THE PART OF THE GOE OFFICIALS CONCERNED WITH
OVERSEEING INVESTMENT POLICY, ITS EXISTENCE AT

THIS TIME COULD BE HIGHLY PROPITIOUS. THIS MESSAGE CONTAINS SOME SUGGESTIONS AS TO HOW THE U.S. COULD MAKE GOOD USE OF THE OPPORTUNITY. END SUMMARY.

2. IT IS NO LONGER NEWS THAT THE TIDAL WAVE OF BUSINESSMEN THAT ENGULFED EGYPT IN LATE 74 AND EARLY 75 HAS LONG SINCE RECEDED, AND THE UNREALISTICALLY HIGH EXPECTATIONS OF THE FEW REALLY SERIOUS POTENTIAL INVESTORS (NOT TO MENTION ALL THE RIP-OFF ARTISTS, UNINFORMED--AND UNINFORMABLE--NEOPHYTES, AND PLAIN CURISITY SEEKERS WHO CONSTITUTED THE BULK OF THAT WAVE) HAS BEEN REPLACED BY A REALISM BORDERING ON PESSIMISM ON THE SUBJECT OF THE INVESTMENT CLIMATE. SIMILARLY, THE EGYPTIANS HAVE BEEN BADLY DISILLUSIONED, AND THE VAST MAJORITY STILL DO NOT UNDERSTAND WHY THEIR COUNTRY HAS NOT BEEN SWAMPED WITH PROJECTS.

3. FOR MOST OF THEM, EGYPT IS THE ONLY PLACE IN THE WORLD TO MAKE AN INVESTMENT, A FEELING THAT IS STRONGLY HELD EVEN TODAY. FOR THIS REASON, THE DOOR HAD ONLY TO BE OPENED A CRACK, AND INVESTORS WOULD THEREAFTER BATTLE EACH OTHER TO THE DEATH FOR THE CHANCE TO SQUEEZE THROUGH. THE REALITIES OF THE INTERNATIONAL INVESTMENT SITUATION, THE INDUCEMENTS OFFERED BY OTHER COUNTRIES, AND THE PRINCIPLES OF COSTS AND RETURNS ON INVESTMENT REMAIN LARGEY UNKNOWN OR MISUNDERSTOOD. IN ADDITION TO THIS LACK OF SOPHISTICATION, THE RESULT OF YEARS OF ISOLATION COUPLED WITH IMMERSION IN ARAB SOCIALISM, THERE IS THE RESISTANCE OF THOSE

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OPPOSED TO A MAJOR ROLE FOR PRIVATE CAPITAL BECAUSE OF VARIOUS COMBINATIONS OF SOCIAL, POLITICAL, PERSONAL OR INSTITUTIONAL REASONS. THESE FACTORS COMBINED IN 1974 TO PRODUCE LAW 43, AND INVESTMENT LAW THAT CANNOT REALLY BE CONSIDERED AS CONDUCIVE TO CAPITAL INFLOW, WHICH WAS THEN LEFT FOR IMPLEMENTATION IN THE HANDS OF A BUREAUCRACY CELEBRATED FOR ITS CREATIVE INEFFECTIVENESS. THE CONCLUSION WAS FOREGONE.

4. THERE ARE NOW HOPEFUL SIGNS THAT SOME OF THE LESSONS MAY HAVE BEEN LEARNED, FINALLY, AND THAT THE GOE WILL NOW FACE UP TO THE TASK OF CREATING THE PROPER ENVIRONMENT. THIS WILL NOT BE ANY EASY OR UNCOMPLICATED TASK, AND THE DANGER IS THAT THE EGYPTIANS MAY TREAT IT AS SUCH, NOT ONLY BECAUSE THEY DO NOT FULLY COMPREHEND THE PROBLEM, BUT ALSO BECAUSE THE RESISTANCE TO A REALLY ATTRACTIVE INVESTMENT CLIMATE IS STILL IN PLACE TO A LARGE DEGREE.

5. TAKING THE SECOND OBSTACLE FIRST, THERE
ARE FEW SIGNS, IF ANY, THAT THE BODY POLITIC IS
READY FOR THE KIND AND NUMBER OF CHANGES THAT
WILL BE REQUIRED IN ORDER TO ATTRACT THE VOLUME
OF INVESTMENT INFLOW THAT COULD MAKE A REALLY
MEANINGFUL CONTRIBUTION TO THE DEVELOPMENT OF THE
ECONOMY. THERE WAS QUITE A STRUGGLE EVEN TO
PRODUCE LAW 43, WHICH IS THE EMASCULATED RESULT
OF CONSIDERATION BY THE PEOPLES ASSEMBLY OF AN
ALREADY FEEABLE LAW THAT REPRESENTED WHAT THE GOE
THOUGHT WAS NEEDED, BUT STUDENTS, WORKERS, AND
OTHERS -- INCLUDING MANY OF THOSE ENGAGED ON ITS
IMPLEMENTATION -- OBJECTED EVEN TO WHAT HAD BEEN
PASSED. PRIVATE CAPITAL IS STILL VIEWED WITH
CONSIDERABLE SUSPICION BY A SIGNIFICANT PORTION OF
THE POPULATION, AND IT WILL ONLY BE WITH DIFFICULTY,
CONSIDERABLE DIFFICULTY, THAT THE GOE COULD GET
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SOMETHING ON THE BOOKS THAT WILL CONTRIBUTE TO
ATTRACTING SIGNIFICANT FUNDS.

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6. MORE IMPORTANTLY, IT LOOKS INCREASINGLY AS IF THERE IS STILL LITTLE UNDERSTANDING OF WHAT WILL ACTUALLY BE REQUIRED. MOST POTENTIAL INVESTORS STUMBLED IMMEDIATELY OVER THE PROVISIONS OF LAW 43 THAT CONCERNED EXCHANGE RATES FOR CAPITAL INPUT, AVAILABILITIES OF FOREIGN EXCHANGE FOR PROFIT REPATRIATION, ETC. AS A RESULT, THESE ARE THE PROBLEMS MOST OFTEN STRESSED AS OBSTACLES TO INVESTMENT, AND THE ONES THE EGYPTIANS ARE NOW TALKING OF CHANGING. IN FACT THESE PROBLEMS, WHILE SERIOUS AND PERHAPS THE MOST READILY APPARENT, ARE ONLY THE FIRST IN A LONG AND COMPELLING LIST OF DRAWBACKS THAT WILL HAVE TO BE DEALT WITH, AND WHICH MOST INVESTORS NEVER GOT FAR ENOUGH TO CONSIDER.

7. THE BUSINESS COUNCIL REPORT COVERS THEM IN DETAIL, AND THEY RANGE FROM LABOR AND TAX LAWS THROUGH GOVERNMENTAL PRIORITIES AND POLICIES TO LABOR PRODUCTIVITY AND INFRA-STRUCTURE. (WHILE ALL THE FOREGOING ARE AMENABLE TO MODIFICATION BY LEGAL OR ADMINISTRATIVE ACTION, THE IMPORTANT

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QUESTIONS OF POLITICAL AND ECONOMIC STABILITY ARE ALSO OF IMPORTANCE TO AN INVESTOR AND ARE ALSO DISCUSSED.) ADD TO THE ABOVE THE FACT THAT THE DOMESTIC MARKET REMAINS CLOSED TO INVESTORS, UNLESS THEY ARE NOT INTERESTED IN REPATRIATING PROFITS (AND THERE ARE STILL ALMOST NO SIGNS THAT THIS POLICY WILL BE CHANGED) AND THE PROSPECTS FOR THE SHORT RUN ARE NOT TOO PROMISING.

8. WHAT IS NEEDED IS A FAIRLY MASSIVE AND EXTENSIVE RESTRUCTURING OF THE OVERALL ENVIRONMENT. BECAUSE THEY DO NOT APPEAR TO UNDERSTAND THIS FACT, AND ALSO BECAUSE IT WOULD BE VERY DIFFICULT TO DO, THE EGYPTIANS WILL PROBABLY CONTENT THEMSELVES WITH A FEW RELATIVELY MINOR CHANGES IN LAW 43, (EXCHANGE RATES, EXCHANGE AVAILABILITIES, ETC.), AND THEN WILL SIT BACK AND WAIT AGAIN FOR THE FLOOD OF ANTICIPATED INVESTORS. THE NEW RULES MAY INDEED ATTRACT A FEW PROJECTS, AFTER ALL A VERY FEW CAME IN UNDER THE EXISTING RULES, BUT IN TERMS OF WHAT EGYPT NEEDS -- AND WHAT THE U.S. AND OTHERS WANT -- IT IS UNLIKELY TO BE OF ANY REAL UTILITY.

9. WHAT CAN BE DONE? THE PROSPECTS DESCRIBED ABOVE, WHICH REPRESENT AN EFFORT AT A REALISTIC APPRIASIAL OF THE SITUATION, ARE NOT EASILY CHANGED. ON THE OTHER HAND, THE TIMING IS RIGHT FOR FURTHER EFFORTS TO EDUCATE THE EGYPTIANS ON THE REALITIES OF INVESTMENT ATTRACTION AND THE BUSINESS COUNCIL REPORT PROVIDES THE APPROPRIATE VEHICLE: COPIES HAVE BEEN GIVEN BY DAVID ROCKEFELLER TO PRESIDENT SADAT, VP MOBAREK,

PM SALEM, FINMIN FAHMY AND OSMAN OSMAN; BY THE AMBASSADOR TO DEP PM KAISSOUNI, MINECON EL SAYEH, AND MINFIN HAMID; BY LOREN SUTER, WHO WROTE IT, TO MINPLAN EL IMAN AND A NUMBER OF OTHER OFFICIALS WITHIN THE GOE AND THE ASSEMBLY; BY THE E/C SECTION AND USIS TO KNOWLEDGEABLE AND INFLUENTIAL PEOPLE IN THE GOE, PRESS, PRIVATE SECTOR AND INTERNATIONAL ORGANIZATIONS. IN EACH CASE, A DISCUSSION OF THE BACKGROUND AND PURPOSE OF THE REPORT ALSO TOOK PLACE, SO THERE IS ALREADY A CONSIDERABLE AWARENESS OF ITS CONTENTS.

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10. THE EMBASSY SUGGESTS THAT IN ADDITION TO THE EFFORTS BEING UNDERTAKEN HERE, THE DEPARTMENT CONSIDER THE UTILITY OF THE FOLLOWING STEPS TO PROMOTE THE FULLEST POSSIBLE UTILIZATION OF THE INFORMATION CONTAINED IN THE REPORT.

A. IN VIEW OF THEIR CLOSE PERSONAL INVOLVEMENT IN THE IMPLEMENTATION OF THE OPEN DOOR, WE SUGGEST MESSAGES FROM SECRETARY SIMON, DEPUTY SECRETARY ROBINSON AND/OR ASSISTANT SECRETARY PARKSY BE SENT TO PM SALEM ENCOURAGING CAREFUL STUDY OF THE REPORT SINCE IT REFLECTS THE VIEWS AND EXPERIENCES OF THOSE MOST KNOWLEDGEABLE ON THE SUBJECT, I.E., THE FOREIGN INVESTOR. IT IS NOT A USG DOCUMENT, BUT WE SUBSCRIBE TO ITS CONTENTS AND PURPOSE.

B. THE CHAIRMAN OF THE U.S. BUSINESS COUNCIL COULD DO THE SAME, SINCE THERE HAS BEEN AMPLE TIME TO STUDY THE REPORT FOLLOWING THE INITIAL SEPTEMBER DELIVERY BY ROCKEFELLER.

C. DEPENDING ON THE CIRCUMSTANCES, THE FEBRUARY MEETING OF THE EXECUTIVE COMMITTEE OF THE U.S. COUNCIL COULD SEND A HIGH-LEVEL REPRESENTATIVE TO CAIRO FOR THE SAME PURPOSE.

D. TO THE EXTENT IT IS PRACTICABLE, OTHER INTERESTED GOVERNMENTS COULD BE PROVIDED WITH COPIES, IN THE HOPE THAT THEY WOULD ADD THEIR VOICES TO OURS.

WE WOULD APPRECIATE THE DEPARTMENT'S REACTION TO THE FOREGOING.

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